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UNCLAS HALIFAX 0052

SIPDIS

SENSITIVE BUT UNCLASSIFIED

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C O R R E C T E D C O P Y - CAPTION/PARA SBU ADDED

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SUBJECT: NOVA SCOTIA ENERGY MINISTER STILL OPTIMISTIC  
ON DEEP PANUKE GAS PROJECT

REF: 02 Halifax 0307

11. SENSITIVE BUT UNCLASSIFIED.

12. (SBU) SUMMARY: The Nova Scotia provincial government remains optimistic about the future of the Deep Panuke offshore natural gas project despite EnCana's decision to halt work for the time being. The province is eager to persuade USG officials of Atlantic Canada's importance in ensuring a secure, long-term energy supply for North America. (END SUMMARY)

13. (SBU) Nova Scotia's newly appointed Energy Minister, Ernie Fage, focused on the Deep Panuke offshore natural gas project during his first meeting with CG on February 27. Fage acknowledged that he has taken over the energy portfolio from his predecessor Gordon Balser at a difficult time for the province's energy sector. Just the previous day, federal and provincial regulators agreed to discontinue their public review of the Deep Panuke project at the request of the project's principal sponsor, the EnCana Corporation of Calgary. The company announced on February 14 that it was asking for the "time-out" while it undertook a comprehensive review of the project. Company officials cited concerns over the availability of sufficient gas reserves to make the project economically viable.

14. (SBU) Minister Fage admitted that the main problem lies in disappointment in some quarters over the lower-than-expected quantities of new, exploitable natural gas reserves discovered thus far in the areas offshore Nova Scotia. Estimates of the recoverable portion of this gas field have been declining from the 1.2 trillion cubic feet of gas originally projected. EnCana's had initially hoped to begin supplying gas to the U.S. northeast by 2006, but the company now has no idea of the new start-up date.

15. (SBU) Despite the obvious bad news to Nova Scotia's developing energy sector, Minister Fage said he agreed with industry observers that that EnCana's delay was primarily a business decision. The minister acknowledged that uncertainty over the size of the gas reserves was making Deep Panuke less attractive than EnCana's other investments elsewhere, such as in the North Sea and the Gulf of Mexico. He also speculated that the company, which just came into existence last year through a merger between PanCanadian and Alberta Energy Company, may still be sorting out its priorities and moving those with a quicker return on investment to the top of the list.

16. (SBU) Taking a long-term view, Fage echoed comments by many in the industry who believe that Deep Panuke may follow the model of the Sable Island project, whose development languished in the doldrums for years before the discovery of new reserves and changing economic conditions propelled the project into the production phase. Just how long the delay will be for Deep Panuke, the Minister predicted, might depend on world energy prices. Equally important will be the results of EnCana's various exploratory drilling activities in the Nova Scotia offshore areas, as well as those of other companies determined to find economically-viable natural gas there. Fage said he expected that there will be 8-10 new exploratory wells this year, bringing the total value of work commitments to the level of C\$1.5 billion.

17. (SBU) COMMENT: While some of Fage's comments about Deep Panuke may reflect the province's forced optimism, the overall prospects for the offshore energy sector in Atlantic Canada remain very strong. The Minister displayed eagerness to get the message across to senior USG officials that this region can play a vital role in producing secure, long-term energy supplies for North America. Fage will be traveling to Houston and Washington in March, then attending the Offshore Technology Conference in Houston in May. CG offered to help arrange appointments for him with

appropriate USG federal officials. The Minister promised  
to get back to us with his schedule. (END COMMENT)  
KASHKETT